

108TH CONGRESS
1ST SESSION

H. R. 496

To amend the Internal Revenue Code of 1986 to allow individuals to defer recognition of reinvested capital gains distributions from regulated investment companies.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 29, 2003

Mr. SAXTON (for himself, Mr. ABERCROMBIE, Mr. AKIN, Mr. ANDREWS, Mrs. CUBIN, Ms. DUNN, Mr. ENGLISH, Mr. FERGUSON, Mr. FOSSELLA, Mrs. JOHNSON of Connecticut, Mr. KOLBE, Mr. LUCAS of Kentucky, Mr. PAUL, Mr. ROHRABACHER, Mr. SHAYS, and Mr. WILSON of South Carolina) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to allow individuals to defer recognition of reinvested capital gains distributions from regulated investment companies.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. DEFERRAL OF CERTAIN REINVESTED CAPITAL**
4 **GAIN DIVIDENDS OF REGULATED INVEST-**
5 **MENT COMPANIES.**

6 (a) IN GENERAL.—Part III of subchapter O of chap-
7 ter 1 of the Internal Revenue Code of 1986 (relating to

1 common nontaxable exchanges) is amended by inserting
 2 after section 1045 the following new section:

3 **“SEC. 1046. CERTAIN REINVESTED CAPITAL GAIN DIVI-**
 4 **DENDS OF REGULATED INVESTMENT COMPA-**
 5 **NIES.**

6 “(a) NONRECOGNITION OF GAIN.—In the case of an
 7 individual electing the application of this section, no gain
 8 shall be recognized on the receipt of a capital gain divi-
 9 dend distributed by a regulated investment company to
 10 which part I of subchapter M applies if such capital gain
 11 dividend is automatically reinvested in additional shares
 12 of the company pursuant to a dividend reinvestment plan.

13 “(b) LIMITATION.—

14 “(1) IN GENERAL.—The amount of gain that
 15 may be deferred under subsection (a) for any taxable
 16 year shall not exceed—

17 “(A) \$3,000, or

18 “(B) in the case of a joint return, twice
 19 the amount in subparagraph (A).

20 “(2) INFLATION ADJUSTMENT OF MAXIMUM EX-
 21 CLUSION.—

22 “(A) IN GENERAL.—In the case of any
 23 taxable year beginning in a calendar year after
 24 2003, the amount in paragraph (1)(A) shall be
 25 increased by an amount equal to—

1 “(i) such dollar amount, multiplied by

2 “(ii) the cost-of-living adjustment de-
3 termined under section 1(f)(3) for the cal-
4 endar year in which the taxable year be-
5 gins, determined by substituting ‘calendar
6 year 2002’ for ‘calendar year 1992’ in sub-
7 paragraph (B) thereof.

8 “(B) ROUNDING RULES.—The amount in
9 paragraph (1)(A), after adjustment under para-
10 graph (2)(A), shall be rounded to the nearest
11 multiple of \$100.

12 “(c) CAPITAL GAIN DIVIDEND.—For purposes of this
13 section, the term ‘capital gain dividend’ has the meaning
14 given to such term by section 852(b)(3)(C).

15 “(d) RECAPTURE OF PREVIOUSLY DEFERRED CAP-
16 ITAL GAIN DIVIDENDS.—Amounts deferred pursuant to
17 subsection (a) (and not previously recognized under this
18 subsection) shall be recognized upon the subsequent sale
19 or redemption of shares in the distributing company to
20 the extent of the taxpayer’s adjusted basis in the shares
21 so sold or redeemed.

22 “(e) SECTION NOT TO APPLY TO CERTAIN TAX-
23 PAYERS.—No deduction shall be allowed under this section
24 to—

1 “(1) an individual with respect to whom a de-
 2 duction under section 151 is allowable to another
 3 taxpayer for a taxable year beginning in the cal-
 4 endar year in which such individual’s taxable year
 5 begins, or

6 “(2) an estate or trust.

7 “(f) ELECTION.—An election under this section shall
 8 be made at such time and in such manner as the Secretary
 9 may prescribe.”.

10 (b) CONFORMING AMENDMENTS.—

11 (1) Section 852(b)(3)(B) is amended by adding
 12 at the end the following new sentence: “For rules re-
 13 garding nonrecognition of gain with respect to cer-
 14 tain reinvested capital gain dividends received by in-
 15 dividuals, see section 1046.”.

16 (2) The table of sections for part III of sub-
 17 chapter O of chapter 1 of such Code is amended by
 18 inserting after the item relating to section 1045 the
 19 following new item:

“Sec. 1046. Certain Reinvested Capital Gain Dividends of Regulated Investment
 Companies.”.

20 (c) EFFECTIVE DATE.—The amendments made by
 21 this section shall apply to taxable years beginning after
 22 December 31, 2002.

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